



SUMMARY OF FEDERAL 20% REHABILITATION TAX CREDIT

What is the 20% Rehabilitation Tax Credit?

The National Park Service (NPS), the Internal Revenue Service (IRS), and the South Dakota State Historic Preservation Office (SHPO) jointly administer the 20% rehabilitation tax credit program for the rehabilitation of historic buildings in South Dakota. The program offers a 20% tax credit on the qualified expenditures of a substantial rehabilitation of a certified historic structure. The tax credit applies to the building owner's federal income tax for the year in which the project is completed and approved. Unused tax credit may be carried back 1 year or carried forward 20 years.

Example: 20% of a \$50,000 rehabilitation = \$10,000 tax credit

What is a "certified historic structure"?

A "certified historic structure" is a building that is listed on the National Register of Historic Places either individually or as a contributing resource in a listed historic district. The building must be income-producing, and the rehabilitation must meet the Secretary of the Interior's *Standards for Rehabilitation*. For more information on the Secretary of the Interior's Standards for Rehabilitation, please visit the NPS website below,

<https://www.nps.gov/subjects/taxincentives/secretarys-standards-rehabilitation.htm>

Private, owner-occupied residences are not eligible for this program.

What are "qualified expenditures"?

Rehabilitation work on the interior or exterior of the building is "qualified expenditures." Purchase price, landscaping, site work, and new additions to the building are not "qualified expenditures." For a more detailed list of "qualified expenditures," see the link below:
<https://www.irs.gov/pub/irs-utl/qualified-rehabilitation-expenditures.pdf>

How much money must be spent in order to qualify for the 20% tax credit?

To be considered a “substantial rehabilitation,” the rehabilitation expenditures must exceed either the “adjusted basis” of the building or \$5,000, whichever is greater. “Adjusted basis” is calculated as the purchase price minus the value of the land minus any depreciation already taken by the current owner plus any capital improvements already made.

Example (recent purchase):

\$60,000 (purchase price)

-\$7,000 (land)

\$53,000 (adjusted basis)

Rehabilitation expenses must exceed \$53,000 to qualify for the program.

Example (long-time ownership):

\$60,000 (purchase price)

-\$7,000 (land)

-\$40,000 (depreciation)

+\$5,000 (capital improvement)

\$18,000 (adjusted basis)

Rehabilitation expenses must exceed \$18,000 to qualify for the program.

When can a rehabilitated building be sold?

The owner must keep the building at least five years after the rehabilitation is completed in order to avoid any recapture of the tax credit. The recapture amount ranges from 100% of the tax credit if the building is sold within the first year to 20% of the tax credit in the fifth year.

How do I apply?

The rehabilitation must be certified by completing an application and submitting it to the SHPO for review and transmittal to the NPS for final review and approval. It is strongly recommended that owners contact the SHPO and submit an application prior to beginning any work.

To download an application form for this program, visit the NPS website at <https://www.nps.gov/subjects/taxincentives/historic-preservation-certification-application.htm>.

Starting August 15, 2023, Federal Historic Tax Credit applications must be submitted to SD SHPO in an electronic format.

The National Park Service (NPS) has transitioned to an electronic review process for the program. NPS will no longer accept hard copy (paper) submissions. Applicants will still send forms and supporting documentation to SD SHPO prior to NPS review.

Application materials can be sent to SD SHPO via mail on a USB flash Drive. Materials may also be shared with SD SHPO through Microsoft OneDrive or Dropbox. All application materials including Part 1, Part 2, Part 3, Amendments, photographs, and drawings must be submitted as PDFs.

Application cover sheets can now accept digital signatures. Digital signatures must either be scanned as a .jpeg file and placed within the PDF document or utilize Adobe digital ID.

Application files cannot be larger than 70 MB in size and files must be saved using NPS required naming conventions. For more information:

<https://www.nps.gov/subjects/taxincentives/upload/hpca-file-format-naming-2023-07-14-508.pdf>

Photographs still must follow NPS guidelines for formatting, captions, and photo keys. All photographs should be submitted in one PDF file.

<https://www.nps.gov/subjects/taxincentives/upload/hpca-photo-requirements-2023-07-14-508.pdf>

For full instructions on the new electronic Historic Preservation Certification Application, please follow this link: <https://www.nps.gov/subjects/taxincentives/upload/hpca-photo-requirements-2023-07-14-508.pdf>

Please send application materials on a USB Flash Drive to Duncan Trau, SD State Historic Preservation Office, 900 Governors Drive, Pierre SD 57501-2217

For more information, contact:

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